

NZX/ASX RELEASE

27 September 2016

IQE – UPDATE ON ASQA AUDITS

- Findings of recent Australian Skills Quality Authority (ASQA) audits are that two Intueri subsidiaries are not compliant with current ASQA standards, primarily relating to admissions procedures, assessment practices and learner support resources.
- Intueri's initial assessment is that a number of the findings are capable of being disputed or remedied, whilst some are likely to be accepted. Intueri will respond to ASQA prior to the 21 October 2016 deadline.
- Possible outcomes from the audits range from a directive to correct areas of non-compliance to a full cancellation of Online Courses Australia Pty Ltd (OCA) and Conwal & Associates Pty Ltd (Conwal) registrations. Intueri believes cancellation of registration would be unwarranted, particularly for Conwal, which represents 95% of Online Courses Australia Group's (OCA Group's) revenue.
- A final decision on the audit outcome may take a number of months.
- Intueri is maintaining its normal operations, with continued bank support and no changes to its current access to the VET FEE-HELP (VFH) scheme in Australia. Funding for its New Zealand Private Training Establishments (PTEs) for 2016 continues, and Intueri's 2017 Investment Plan will be considered by the Tertiary Education Commission (TEC) later in the year, as per standard practice.
- **Intueri strongly cautions any investor seeking to trade in Intueri shares, and especially any investor seeking to acquire Intueri shares, to take full account of the information provided in this update before trading and consider delaying any such trading until further information is available.**

Intueri Education Group Limited (NZX/ASX: IQE) advises that it is currently undertaking a thorough review and preparing a response to the ASQA audit findings, received on 22 September 2016.

As previously advised, Intueri received notification from ASQA that following recent audits, ASQA intends to make a decision under section 36 of the National Vocational Education and Training Regulator Act 2011 (Australia) to consider either cancelling the registration of OCA and Conwal, or imposing sanctions of lesser severity, subject to a review of Intueri's response.

The audits covered the period between April 2015 and July 2016, and were an assessment of compliance with the Standards for Registered Training Organisations 2015 and, additionally for Conwal, compliance with the VFH scheme where those requirements overlap or are relevant to the VET Quality Framework.

The audit findings of non-compliance relate primarily to admissions procedures, assessment practices and learner support resources. Intueri believes that a number of the findings are capable of being disputed or remedied, and whilst some are likely to be accepted, cancellation of registration would be unwarranted.

OCA and Conwal comprise the primary businesses of the OCA Group. Conwal is Intueri's VFH provider of accredited programmes. At the time of the July 2016 audit, it had 4,184 students enrolled. Conwal represented 95% of OCA Group 1H 2016 revenues. OCA is a Fee-for-service business comprising non-accredited and accredited programmes, with 958 students at the time of the ASQA audit. OCA represented 5% of OCA Group revenues in 1H 2016.

OCA Group has made a number of changes to its operating procedures and student support levels since April 2015, particularly in Conwal, and has also made significant improvements in its delivery model since February 2016. These are recognised in the audit report findings.

Intueri is reviewing the reports and seeking legal advice, and will provide a written response to ASQA prior to the ASQA requested deadline of 21 October 2016, including confirmation of the areas that it wishes to challenge in the audit findings.

Intueri has been advised that ASQA will make a decision on the outcome of the audits within 2 to 4 weeks of Intueri providing its response, and that this decision will come into effect 35 days after notification, unless Intueri chooses to appeal the decision. If Intueri chooses to appeal the decision, then a final outcome may be some months later.

Possible outcomes from the audits range from a directive to correct areas of non-compliance to a full cancellation of OCA and Conwal's registrations as Registered Training Organisations (RTOs). A full cancellation of Conwal's registration would place serious doubt on OCA Group's ability to continue to operate, and also significantly impact Intueri's ability to remain a going concern as it would be unlikely to meet its future banking covenants. A cancellation of the OCA registration would not have the same effect as it is not a material revenue source for Intueri.

Intueri has previously advised both ASQA and the Department of Education (DET) that it intends to deregister OCA in 2016 and consolidate all programmes under a single RTO, Conwal. Internal processes have begun to implement this strategy.

Given the timing of the ASQA audit, there may be a further delay in receiving a response from the DET, which is responsible for VFH funding decisions, on both the requested 2016 funding uplift and the payment of final 2015 funding. As advised previously by Intueri, receipt of a A\$6m VFH funding uplift was included in Intueri's current 2016 market guidance, and failure to receive this uplift could impact 2016 earnings by up to A\$4m. Intueri is seeking confirmation of current funding and outstanding 2015 payments, and awaiting completion of a DET audit.

At this point in time, Intueri has not been advised of any changes to its ASQA or NZQA registrations, nor to 2016 funding entitlements for any of its colleges in either Australia or New Zealand, and Intueri is continuing to maintain normal operations.

The Intueri Board has assessed the ability of OCA Group and Intueri to remain operating as a going concern. At this point in time, Intueri expects to be able to continue to operate as a going concern, but its ability to comply with its future banking covenants is now less certain pending the outcome of the ASQA audits and timing of receipt of the A\$4m final VFH 2015 payment, previously assumed to be received by the end of October 2016. Intueri and its bank had recently agreed modified covenant terms to accommodate Intueri's latest financial outlook. The Bank is supportive of Intueri's strategy and the planned response to the ASQA audit and will continue to work constructively with Intueri to restructure those funding arrangements.

Intueri is unable to provide updated 2016 earnings guidance until the audit outcome is confirmed and DET advises its decisions on both the requested 2016 funding uplift and the payment of final 2015 funding.

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About Intueri:

Intueri Education is a New Zealand headquartered group of private training establishments delivering vocational education to students in New Zealand and Australia and from around the world.

We provide industry-appropriate courses and qualifications across a diverse range of industries, working closely with those industries to ensure training remains relevant and employment-outcome focused.

Intueri is dual listed on the NZX and ASX under the ticker symbol IQE.